

**DRAFT**

**WATER/FLC/JPT/MXK/MML/jlj**

**AGENDA ITEM #4848**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION**

**RESOLUTION NO. W-4559**

**August 25, 2005**

**R E S O L U T I O N**

**(RES. W-4559), DEL ORO WATER COMPANY (DOWC), PINE MOUNTAIN DISTRICT (PMD). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$15,918 OR 93.13% IN 2005.**

---

**SUMMARY**

By Draft Advice Letter, filed on October 26, 2004, DOWC seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2005, this resolution grants an increase in gross annual revenues of \$15,918 or 93.13%, which is estimated to provide a return on rate base of 8.48%. This resolution also resolves tariff filing issues not previously addressed in the acquisition decision.

**BACKGROUND**

DOWC acquired Pine Mountain Water Company on October 1, 2004 pursuant to Decision (D.) 00-01-018. DOWC has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$25,319 or 192%, in Test Year 2005. The purpose of the rate increase is to recover operating expenses and to provide an adequate rate of return. DOWC's request shows gross revenues of \$13,220 at present rates would increase to \$38,539 at proposed rates.

The present rates became effective on December 13, 1999 as a result of a Consumer Price Index increase pursuant to D.92-03-093, which produced an increase of \$255 or 1.6% in additional annual revenue. The last general rate increase was granted on April 9, 1997, pursuant to Res. W-4037, which authorized a gross revenue increase of \$7,027 or 75.3% additional annual revenue.

**DOWC/DRAFT AL/JPT/MXK/MML/jlj**

PMD is operated as a district of the Del Oro Corporation owned by Mr. Robert Fortino. PMD serves approximately 88 flat rate connections in the service area located about one mile east of Pine Flat, Tulare County. Del Oro has other districts serving communities of

Ferndale in Humboldt County; Paradise Pines, Magalia, Lime Saddle, and Stirling Bluffs in Butte County; Johnson Park in Shasta County; Country Estates in Kern County; and Pine Flat in Tulare County.

PMD obtains its water supply from two wells. Total water production for 2003 was 23.0 million gallons. PMD has one 36,000 gallon storage tank and approximately 11,800 feet of four and six inch transite pipe. PMD has an interconnection with and has historically sold water to the adjacent Pine Flat system.

DOWC has been granted authority in D.05-01-047, dated January 27, 2005, to borrow approximately \$500,000 to make improvements to PMD and the adjacent Pine Flat system.

The PMD system is maintained by Porter Fisher, DOWC's field technician, who also maintains the adjacent Pine Flat system and the Country Estates system which is approximately 50 miles away.

Generally, PMD by itself falls under the jurisdiction of the Tulare County Health Department (TCHD) because it has fewer than 200 connections. However, the California Department of Health Services (DHS) has assumed the regulatory responsibility for the system since PMD and Pine Flat were acquired by DOWC. PMD has no outstanding water quality orders from either TCHD or DHS.

**NOTICE AND PUBLIC MEETING**

A notice of the proposed general rate increase was mailed to each customer on November 1, 2004. The Branch received twelve letters of complaint regarding the proposed rate increase. The complaints dealt primarily with the perception that customers in the PMD service area would be subsidizing the Pine Flat service area and issues surrounding part-time residents. DOWC responded to each letter.

On December 2, 2004, at 7:00 p.m., a public meeting was held in the utility's service area. The public meeting also included customers from DOWC's adjacent Pine Flat district. Division Staff explained Commission rate setting procedures and DOWC's representative explained the reasons for the proposed increase. DOWC's consultant also provided supporting documents. A representative of DHS made a brief statement about the condition of the system and the current boil water order for the neighboring Pine Flat system. The thirty-one people who attended the meeting represented at least eleven of Pine Mountain's eighty-eight customers. The customers stated that they were

**DOWC/DRAFT AL/JPT/MXK/MML/jlj**

against subsidizing the Pine Flat system. They also expressed concern that the water rates were increasing faster than inflation. The PMD customers also complained about the addition of chlorine to their system, noting that it was only necessary because of the interconnection with Pine Flat. Division representatives assured customers that the

Commission would take into account all of the customers concerns when authorizing the final rates in the matter.

On June 30, 2005, copies of both the PMD and Pine Flat staff reports were mailed to the customers who had requested them at the public meeting. No questions or comments were received by the Division staff.

**PROTESTS**

There were no formal protests to DOWC's request.

**DISCUSSION**

The Water Division (Division) made an independent analysis of DOWC's summary of earnings and issued its report in June 2005. Appendix A shows DOWC's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in DOWC's and the Division's estimates in operating revenues, expenses, and rate base. DOWC was informed of the Division's differing views of revenues, expenses, and rate base and agrees with the Division's findings.

Pine Mountain Water Company historically sold water to the adjacent Pine Flat Water Company. The need for water transfers from PMD to Pine Flat will continue for now and in the near future. In the last rate case Pine Mountain Water Company was ordered to begin collecting data on sales to Pine Flat Water Company. Division examined the data recorded by the previous owner and found that only one year was usable due to missing reading. Division used this year of data for its recommendation and has credited the PMD ratepayers for water transfers to Pine Flat by applying the same rate recommended for metered customers of Pine Mountain to arrive at \$4,213. Division will recommend an offsetting charge to Pine Flat. DOWC has assured Division that meter readings are now being recorded on a consistent basis. Division also recommends that PMD and Pine Flat be required to file for new rates in three years once adequate data has been recorded.

The major differences in expenses were in the (1) Purchased Power, (2) Materials, and (3) Contract Work accounts. For the Purchased Power account, the Division applied the latest electric rate schedules for Southern California Edison Company to the one complete year of usage data available from the previous owners to determine test year

**DOWC/DRAFT AL/JPT/MXK/MML/jlj**

costs. For the Materials account the Division escalated the allowance from the previous GRC. For the Contract Work account Division excluded the cost of an engineering study from expense, recommending that DOWC capitalize the cost once any improvements become used and useful.

DOWC did not provide a rate base calculation. Under Public Utilities Codes 2718-2720, otherwise known as the Public Water System Investment and Consolidation Act of 1997,

“The Commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.”

In the case of Pine Mountain the fair market value was deemed to be the purchase price pursuant to D.00-01-018, adopted by the Commission on January 6, 2000, authorizing DOWC to purchase Pine Mountain. Although DOWC did not acquire the Pine Mountain system until October 1, 2004, the purchase price of \$37,500 did not change. Division used Pine Mountain Water Company’s annual report figures and the depreciation adopted in the last GRC (Resolution W-4037) to arrive at a net value for the depreciable plant at the time of the October 1, 2004 acquisition of \$268. There is a non-depreciable value of \$15,000 for the land and land rights. Therefore, Division used the \$37,500 less the \$15,268 value at the time of purchase to arrive at an acquisition adjustment of \$22,232.

The Water Division’s Audit & Compliance Branch has conducted an analysis of the financial market changes with the last year and the high operational risk faced by Class B water companies and has determined that the appropriate range for return on rate base is 8.48%. Using the rate of return of 8.48%, the Division calculates a revenue requirement of \$33,010.

The summary of earnings in Appendix A shows a recommended return-on-rate base of 8.48% at adopted rates. This return-on-rate base is the recommended range for DOWC to reflect a well-run operation with good customer service.

PMD’s current rate structure consists of one schedule: No. 2AR, Annual Residential Flat Rate Service, filed in the Pine Mountain Water Company tariff book. DOWC has requested in its draft advice letter to establish a metered tariff. Division recommends that both tariffs be filed in DOWC’s tariff book and named consistently with DOWC’s other tariff schedules.

**DOWC/DRAFT AL/JPT/MXK/MML/jlj**

D.92-03-093 allows Class B utilities to recover up to 50% of fixed costs in their readiness-to-serve charge. The metered rates shown in Appendix B recover 50% of the utility's fixed cost. Since no metered data for water sold exists, Branch based the quantity charge rate on water production and an assumption of 10% unaccounted for water. The new rate schedules can be found in Appendix B.

Bill comparisons are shown in Appendix C for flat rates. The adopted quantities and tax calculations are shown in Appendix D.

DOWC has requested an additional special condition in the tariffs to guard against seasonal customers who wish to disconnect for part of the year. It is a well established Commission policy that a water utility's readiness-to-serve costs should be borne equally by year round and seasonal residents. Division recommends a metered rate and that metering be made available as quickly as possible to customers upon request. Division recommends adding the following special condition to the PMD metered and flat rate tariffs:

"In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service."

DOWC requested filing of a service area map. Division investigated and discovered that the map found in the Pine Mountain Water Company tariff was not up to date. Division recommends that DOWC be authorized to file a map for the Pine Mountain District Service Area which reflects the service area as it existed when the system was acquired on October 1, 2004.

**COMPLIANCE**

PMD is currently providing water service according to the standards of GO 103. DOWC files its Annual Reports regularly for each district. There are no outstanding Commission orders.

**FINDINGS**

1. The Division's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Division (Appendix B) are reasonable and should be adopted.

3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Division is justified and the resulting rates are just and reasonable.
5. Pine Mountain should file for new rates in three years once complete data is available for water production and power usage.
6. Tariff Schedule No. 2AR should be renamed Schedule PM-2 and filed in DOWC's tariff.
7. Pine Mountain should be allowed to add the following special condition to the its rate tariffs: "In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service."
8. DOWC should be authorized to file service area maps to reflect the Pine Mountain service area as it existed when the system was acquired on October 1, 2004.
9. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311(g)(3).

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Del Oro Water Company, Pine Mountain District to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, respectively. The effective date of the revised rate schedules shall be five days after the date of filing.
2. Del Oro Water Company, Pine Mountain District is authorized to increase its annual revenues by \$15,918 or 93.13%, based on reasonable rates for 2005.
3. Del Oro Water Company is granted authority to file an advice letter to add service area map to its tariff book to reflect the Pine Mountain District service area as it existed when the system was acquired on October 1, 2004.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 25, 2005; the following Commissioners voting favorably thereon:

---

STEVE LARSON  
Executive Director

**Appendix A**

**Del Oro Water Company**  
**Pine Mountain District**

**SUMMARY OF EARNINGS**  
**Test Year 2005**

<b>Item</b>	<b>Utility Present Rates</b>	<b>Utility Estimated Requested Rates</b>	<b>Branch Present Rates</b>	<b>Branch Estimated Requested Rates</b>	<b>Recommended Rates</b>
<b><u>OPERATING REVENUES</u></b>					
Flat Rates	\$13,220	\$38,539	\$14,980	\$38,544	\$28,796
Metered Rates	\$0		\$0	\$0	\$0
Other Water Revenue (Sales to Pine Flat)	\$0	\$0	\$2,112	\$0	\$4,213
Total Revenue	\$13,220	\$38,539	\$17,092	\$38,544	\$33,010
<b><u>OPERATING EXPENSES</u></b>					
Purchased Power	\$8,823	\$8,823	\$7,827	\$7,827	\$7,827
Other Volume Related Expenses	\$0	\$0	\$0	\$0	\$0
Employee Labor	\$6,920	\$6,920	\$6,362	\$6,362	\$6,362
Materials	\$1,500	\$1,500	\$118	\$118	\$118
Contract Work (Excl Water Testing)	\$3,558	\$3,558	\$0	\$0	\$0
Water Testing	\$0	\$0	\$908	\$908	\$908
Transportation	\$0	\$0	\$637	\$637	\$637
Other Plant Maintenance	\$0	\$0	\$0	\$0	\$0
Office Salaries	\$3,930	\$3,930	\$3,930	\$3,930	\$3,930
Management Salaries	\$1,598	\$1,598	\$1,598	\$1,598	\$1,598
Employee Benefits	\$923	\$923	\$923	\$923	\$923
Uncollectibles	\$0	\$0	\$0	\$0	\$0
Office Services & Rental	\$356	\$356	\$356	\$356	\$356
Office Supplies and Exp	\$900	\$900	\$900	\$900	\$900
Professional Services	\$298	\$298	\$298	\$298	\$298
Insurance	\$2,502	\$2,502	\$2,394	\$2,394	\$2,394
Regulatory Comm Exp	\$0	\$0	\$0	\$0	\$0
General Expenses	\$0	\$0	\$0	\$0	\$0
Subtotal	\$31,308	\$31,308	\$26,251	\$26,251	\$26,251
Depreciation Expense	\$0	\$0	\$625	\$625	\$625
Taxes other than income	\$1,493	\$1,493	\$1,487	\$1,487	\$1,487
State Income Tax	\$800	\$800	\$800	\$800	\$800
Federal Income Tax	\$0	\$743	\$0	\$1,407	\$577
<b><u>Total Deductions</u></b>	<b>\$33,601</b>	<b>\$34,344</b>	<b>\$29,163</b>	<b>\$30,570</b>	<b>\$29,740</b>
<b><u>NET REVENUE</u></b>	<b>-\$20,381</b>	<b>\$4,195</b>	<b>-\$12,070</b>	<b>\$7,974</b>	<b>\$3,270</b>
<b><u>RATE BASE</u></b>					
Average Plant	-	-	\$53,541	\$53,541	\$53,541
Average Depreciation Reserve	-	-	\$37,212	\$37,212	\$37,212
<b><u>Net Plant</u></b>	<b>-</b>	<b>-</b>	<b>\$16,329</b>	<b>\$16,329</b>	<b>\$16,329</b>
Less Advances	-	-	\$0	\$0	\$0
Contributions	-	-	\$0	\$0	\$0
Plus Working Cash	-	-	\$0	\$0	\$0
Materials and Supplies	-	-	\$0	\$0	\$0
Acquisition Adjustment	-	-	\$22,232	\$22,232	\$22,232
<b><u>Rate Base</u></b>	<b>-</b>	<b>-</b>	<b>\$38,561</b>	<b>\$38,561</b>	<b>\$38,561</b>
<b><u>RATE OF RETURN</u></b>	<b>-</b>	<b>-</b>	<b>-31.30%</b>	<b>20.68%</b>	<b>8.48%</b>



**APPENDIX B**  
**Schedule No. PM-1**

**ANNUAL GENERAL METERED SERVICE**  
**PINE MOUNTAIN DISTRICT**

**APPLICABILITY**

Applicable to all metered water service furnished to the Pine Mountain District service area.

**TERRITORY**

Tract Nos. 416 and 455 in Rainbow Ranch and Tract Nos. 438 and 455, and vicinity, located about one mile east of Pine Flat, Tulare County.

**RATES**

	<u>Per Meter Per Month</u>
Quantity Rate:	
For all water, per 100 cu. Ft.....	\$ 0.821

Annual Service Charge:

	<u>Per Meter Per Month</u>
For 5/8 x 3/4 inch meter .....	\$9.72
For 3/4-inch meter .....	\$14.58
For 1-inch meter .....	\$24.31
For 1-1/2 inch meter .....	\$48.62
For 2-inch meter .....	\$77.79
For 3-inch meter .....	\$145.85
For 4-inch meter .....	\$243.08
For 6-inch meter .....	\$486.17

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge for water computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. The annual service charge applies to service during the 12-month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the residents may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods.
2. The established billing cycle for water used is monthly.
3. The opening bill for meter service, except upon conversion from flat rate service, shall be established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charge shall be credited against the charges for the succeeding annual period. If service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customers.
4. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
5. All bills are subject to the reimbursement fee set forth in Schedule No. UF
6. A late charge will be imposed per Schedule No. LC.

**APPENDIX B, Page 2**

Schedule No. PM-2

ANNUAL GENERAL FLAT RATE SERVICE

PINE MOUNTAIN DISTRICT

APPLICABILITY

Applicable to all flat rate water service furnished to the Pine Mountain District service area.

TERRITORY

Tract Nos. 416 and 455 in Rainbow Ranch and Tract Nos. 438 and 455, and vicinity, located about one mile east of Pine Flat, Tulare County.

RATES

	<u>Per Service Connection Per Year</u>
For a single-family residential unit, including premises .....	\$324.59
For each additional single-family residential unit on the same premises and served from the same service connection .....	\$232.02

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one-inch in diameter.
2. All service not covered by the above classifications shall be furnished only on a metered basis.
3. The annual service charge applies to service during the 12- month period commencing January 1 and is due in advance. If a permanent resident of the area has been a customer of the utility for at least 12 months, the residents may elect, at the beginning of the calendar year, to pay prorated service charges in advance at intervals of less than one year in accordance with the utility's established billing periods.
4. The established billing cycle for water used is monthly. (C)
5. The opening bill for flat rate service shall be the established annual flat rate charge for the service. Where initial service is established after the first day of any year, the portion of such annual charge applicable to the current year shall be determined by multiplying the annual charge by one three-hundred-sixty-fifth (1/365) of the number of days remaining in the calendar year. The balance of the payment of the initial annual charges shall be credited against the charges for the succeeding annual period. If the service is not continued for at least one year after the date of initial service, no refund of the initial annual charges shall be due the customer.
6. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service. (N)  
|  
(N)
7. All bills are subject to the reimbursement fee set forth in Schedule No. UF
8. A late charge will be imposed per Schedule No. LC.

**APPENDIX C**

**DEL ORO WATER COMPANY  
PINE MOUNTAIN DISTRICT**

COMPARISON OF RATES  
TEST YEAR 2005

1. Metered Rates

There are no existing metered rates to compare to.

2. Flat Rates

<u>Tariff Description</u>	<u>Tariff Rates</u>		<u>Recommended Increase</u>	
	<u>Present</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Single-family residence with premises	\$168.86	\$324.59	\$155.73	92.23%
Each additional single-family residence on the same premises and served from the same connection	\$120.70	\$232.02	\$111.32	92.23%

**APPENDIX D**

**DEL ORO WATER COMPANY**  
**PINE MOUNTAIN DISTRICT**  
**ADOPTED QUANTITIES**  
**TEST YEAR 2005**

Expenses:

1. Purchased power (Electric)	
Vendor	Southern California Edison Company
Schedule	PA-1 Agricultural and
Effective Date	Pumping
URG Generation	April 14, 2005
DWR Generation	70.78%
Energy Charge:	29.22%
Delivery Rate	
URG Generation	\$0.03152
Rate	
DWR Generation	\$0.06514
Rate	
Customer Charge per Meter	\$0.08087
Service Charge per	\$22.69
HP	
KWH Used	\$2.57
Number of Meters	66,137
Total Horsepower	2
Billed	
Annual Power Cost	19.0
Composite Energy Cost (\$/KWH)	\$7,827
	\$0.11835

2. DHS Testing Costs	\$908
DHS Fees	\$0

3. Number of Service  
Connections:

Full Flat Rate Connections	88
Connections with Second Dwelling Charge	1
Metered Connections	0

4. Adopted tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$33,010	\$33,010
2.	O & M Expenses	\$26,251	\$26,251
3.	Taxes Other Than Income	\$1,487	\$1,487
4.	Depreciation	\$625	\$625
5.	Taxable Income for State Tax	\$4,647	
6.	State Tax	\$800	
7.	Taxable Income for FIT		\$3,847
8.	Federal Income Tax		\$577
9.	Total Income Tax		\$1,377

California Corporate Franchise Rate-Minimum \$800

Federal Income Tax Rate - Only Lowest Tier Applies 15%

5. 2005 Plant additions included in ratebase:	\$2,269
---	---------